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DEPT FOR EUR/AGS, INR/EU, AND EUR/PPD FOR YVETTE SAINT-ANDRE

OSD FOR COMMANDER CHAFFEE

WHITEHOUSE FOR NSC/WEUROPE

E.O. 12958: N/A
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SUBJECT: AUSTRIAN MEDIA HIGHLIGHTS: July 31, 2007

BAWAG Trial Continues

1. The ninth day of the BAWAG trial focused on the events immediately before the first massive losses of the bank through speculation deals. As before, the two antagonists of the trial, former BAWAG boss Helmut Elsner and investment banker Wolfgang Flttl, contradicted each other with regard to how much Helmut Elsner really knew about the investment strategy of Flttl and how far individual board members were informed about the course of events in the speculation deals. While Flttl claimed that Elsner knew about the overall strategy, the latter denied this with reference to his lack of expert knowledge in the field. According to ORF online, BAWAG transferred 89 million dollars to the Flttl company "Narrow Investments" very shortly before the latter's total loss of 639 million dollars in fall 1998. Only one month later, the all of the money was gone as a consequence of the Flttl deals. The money was allegedly invested in Japanese government bonds, which Elsner and another former BAWAG director claim not to have fully realized. "For BAWAG, the yen was a bit far away," as Christian Bittner, former director of the board of BAWAG, expressed it. ORF online reports that Elsner decidedly contradicted Flttl's account of the proceedings - maintaining instead that he had always assumed Flttl would diversify his investments with BAWAG money. According to Flttl, the heavy losses were attributable to the yen, which rose in fall 1998 instead of falling, as had been the general expectation.

US Criticizes Austria after Escape of PKK Member

2. The US supports Turkey against Austria in the diplomatic controversy about the escape of PKK co-founder Riza Altun. In an OSCE meeting, Turkish Representative Yusuf Buluc severely criticized Austria for undermining the fight against terror. The US delegation agreed and demanded support in the fight against the PKK. Altun succeeded in escaping from France to Iraq via Austria. Although he was detained in Korneuburg for nine days on account of a Turkish arrest warrant, he was set free after the Ministry of Justice apparently decided that the arrest warrant was politically motivated. [Der Standard, p. 5]

Ambassador in Salzburg

3. US Ambassador Susan McCaw attended an opera performance at the "Salzburger Festspiele." Mass circulation daily "Neue Kronenzeitung" reports that US Ambassador Susan McCaw and her husband Craig attended the premiere

of "Eugen Onegin" at the Salzburger Festspiele. Tchaikovsky's four-hour long opera attracted many prominent fans.

US Wants to Contain Iran's Influence

¶4. In view of the growing tensions with Tehran, the US is planning to give massive military assistance to the Arab neighbor states of Iran. The US strategy behind this move is to contain Iran's influence in the region by supporting pro-Western regimes. While Israel's Prime Minister Ehud Olmert showed understanding for the planned weapons deliveries, Iran predictably protested - claiming that the US wants to spread terror and fright in the Middle East. However, criticism also came from Germany, where leading Social and Christian Democrats said it was dangerous to further strain the already unstable situation in the region - like pouring dynamite into a tinderbox. Semi-official daily "Wiener Zeitung" reports on the new US strategy to surround Iran with highly-armed, pro-American states - a long-term strategy that will bring Saudi Arabia and the other five members of the Gulf Cooperation Council (GCC) a military assistance package worth about 20 billion dollars. Israel will also receive thirty billion dollars to balance out the assistance given to the Arab states and alleviate possible Israeli security concerns. The daily referred to "Washington Post" reports, according to which the weapons systems, which will be delivered to the Arab states, are not all defensive in nature. Details with regard to the weapons deliveries will be announced in the wake of the Middle East visit of US Secretary of State Rice and Secretary of Defense Gates. The weapons assistance package will be presented to Congress in the fall. In the meantime, Austrian commentators are in doubt about the wisdom of the US plans. Foreign affairs editor for mass circulation daily "Kurier" Livia Klingl has particularly strong reservations with regard to Saudi Arabia: "After all, Saudi Arabia is an uncertain partner. If polls among Saudi Arabians are even half-way correct, 80 percent of its citizens, who despise their regime on moral grounds, would vote for the Osama bin Laden party - if free elections were held, which is unimaginable. The Saudi leadership is torn between the necessity for reforms and the fact that the vast majority of Saudis are extremely backward-oriented. ... Pakistan is the best example for the ease with which weapons can be turned against a US-supported government. But who ever wanted to learn from history?"

US-Russian Talks about Missile Defense

¶5. Representatives from the US and Russia met in Washington on Monday in order to discuss the controversial American missile defense plans in Central Europe. The two-day talks are headed by Assistant Secretary of State for European Affairs Dan Fried on the US side and Deputy Foreign Minister Sergej Kislijak for the Russians. Russian President Vladimir Putin has offered the US the use of radar facilities in Azerbaijan and the US has agreed to look into this proposal, but has also already made clear that these facilities cannot replace the planned deployment in Central Europe, but would just be an additional option. [ORF online; Der Standard, p. 4]

G.B. and G.B. Demonstrate Unity

¶6. Although US President George W. Bush and British Prime Minister Gordon Brown do not have as much in common as did the US President and Brown's predecessor Blair, they demonstrated unity at their first meeting at Bush's country resort Camp David. The main focus of their talks was the future of the British Iraq mission. Brown assured Bush that Britain would fulfill its obligations, but wanted to gradually transfer the responsibility for the security of the country to the Iraqis. Brown was quoted by centrist daily "Die Presse" as stating that he, "like Tony Blair, will work closely with the American administration." Brown and Bush agreed on a further tightening of sanctions against Iran. The two countries would push for a respective resolution in the Security Council in order to make the country abandon its nuclear program, Brown and Bush announced. The Briton also brought up the issue of Darfur, where more had to be done to end the "biggest humanitarian catastrophe of our time." Brown advocated sending UN troops to step up pressure for an armistice. Summing up the meeting between the British Prime Minister

and the US President, "Die Presse" concludes that it is not to be expected that Brown will forge as close a friendship with Bush as his predecessor had done. The daily refers in this context to the strong public pressure Brown is under with regard to the Iraq issue with even conservative editors demanding a British withdrawal. If Brown wants to profit from a total withdrawal, it has to come soon, "Die Press" sums up.

Millions of Iraqis Live in Extreme Poverty

17. Aid organizations have warned of a humanitarian catastrophe in Iraq - more than eight million people are in urgent need of food, housing, water and medication. The main sufferers are the children, almost one third of whom are malnourished, according to an NGO report.

According to independent daily "Der Standard," the report on the situation of the Iraqi population, which was compiled by Oxfam, 80 international NGOs and 200 Iraqi assistance groups, demanded that donor countries and the Iraqi government to do more to support the "daily struggle for survival" of the people in Iraq. There is also criticism from US Special Envoy Stuart Bowen that reconstruction efforts in Iraq are too slow and the government in Baghdad was not sufficiently forthcoming in assuming responsibility for respective projects. The Envoy, who was appointed by the US Congress, looked into various ways in which US financial assistance, worth 44 billion dollars, has been used in Iraq since 2003. In his report, he concluded that there was corruption and the transfer of responsibility for reconstruction projects to the Iraqis does not work.

Kilner